HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Greater Toronto Area

Canada Mortgage and Housing Corporation

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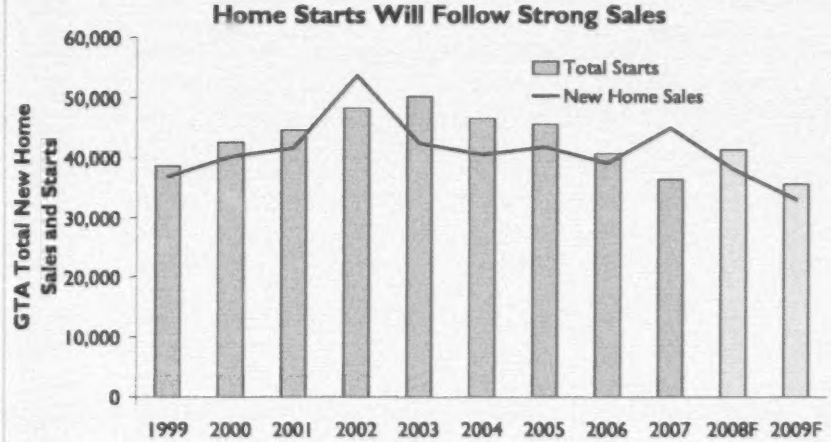
New Home Market

Condominium Apartments Will Dominate Sales

Demand for new homes at the pre-construction stage of development in the Greater Toronto Area (GTA) will remain strong, but trend lower through the end of 2009. A total of 38,000 new home sales will be completed this year, representing a dip of approximately 15 per cent compared to 2007. An additional 33,000 sales are forecast for 2009. Over the forecast period, the break-down between low-rise (single-detached, semi-detached and town houses) and high-rise sales will remain in line with the trend that emerged in 2007. High-rise sales will

Figure 1

Home Starts Will Follow Strong Sales



Source: RealNet Canada Inc. (www.realnet.ca), CMHC

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continue to account for more than half of total sales, with low-rise sales moving lower at a greater rate.

New home sales are forecast to decline due to slowing demand for ownership housing broadly. Slower job growth coupled with higher mortgage carrying costs will prompt some households to put their home buying decision on hold. More home buyers will meet their housing needs through the purchase of an existing home, in response to increasing choice in the resale market, as the gap between listings and sales widens. Generally speaking, when there is more choice in the resale market, fewer buyers will opt to purchase a home at the pre-construction stage of development and wait for completion a year or more into the future.

Affordability underlies the increasing popularity of high-rise condominium apartments in the Toronto area. As the cost of owning a home has increased steadily since the turn of the new millennium, many households have had to turn their attention away from comparatively expensive low-rise housing types, in favour of condominium apartments. The mortgage carrying cost for an average priced new condominium apartment is still manageable for many first-time buyer households.

While condominium apartments will remain appealing to many first-time buyers, it is also important to note that the luxury niche of the condominium apartment market will also remain popular. Over the next two years, some older households, who own high-priced homes in established GTA neighbourhoods, will take the first step in changing their housing situation by purchasing a luxury apartment at the pre-construction stage of development. Many of these apartments will be purchased at a price point at or above $1,000 per square foot. As the baby-boom generation moves closer to their retirement years over the next decade, the niche luxury segment of the condominium apartment market will continue to grow, especially in the central Toronto area.

Strong New Home Starts

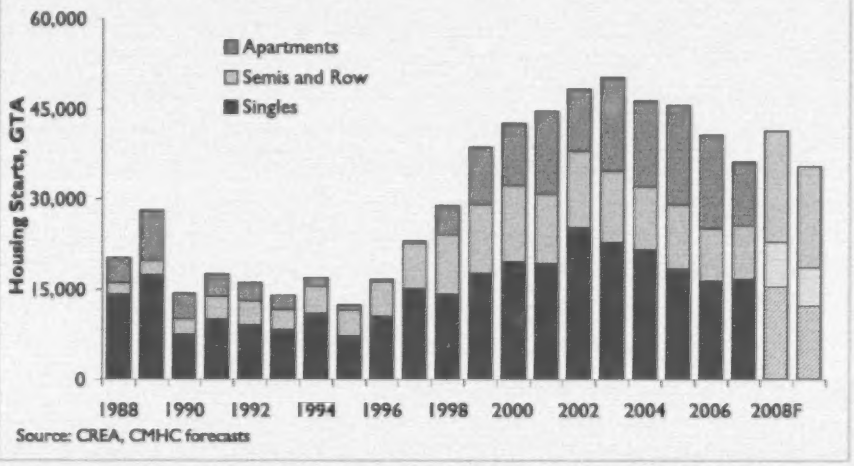
The number of homes that will start construction will increase in 2008 to 41,230 before edging lower again in 2009 to 35,435. Condominium apartment starts will be at the root of increased starts this year, as many projects at the pre-construction stage of development break ground. In 2009, both condominium apartment starts and low-rise home starts will trend lower. New home construction levels will be closer to demographic norms by the end of next year.

A considerable backlog of condominium apartment projects in the development pipeline built up in 2007. Pre-construction high-rise sales hit record levels, while condominium apartment starts strongly declined. With very few completions last year, builders were not able to shift resources to new projects waiting in the pipeline. The result was fewer starts. This year, the situation will reverse. Completions have trended higher and condominium apartment starts have been strong. By the end of 2008, 17,000 to 17,500 condominium apartments will have started construction – a new record for the Greater Toronto Area. In 2009, apartment starts will edge lower to between 15,500 and 16,000 as developers once again experience some capacity constraints.

Save for the first half of 2007, new low-rise (single-detached, semi-detached and row houses) home sales have been trending lower since 2002. This trend will continue through the end of 2009. Rising

Figure 2

Apartments Will Account for Half of Total Starts



Source: CREA, CMHC forecasts

Figure 3

construction costs, including those for land, labour and building materials, have been passed on at least in part to home buyers in the form of higher prices. Higher prices for low-rise homes have resulted in higher mortgage carrying costs relative to average household income in the GTA.

The type of housing starts will vary by geography over the next two years. The share of high-rise starts in the City of Toronto will edge higher based on the geography of pre-construction sales. Between 2006 and 2007, the share of high-rise sales in the City of Toronto increased from 70 to 80 per cent of the total. Low-rise home construction will take place almost exclusively in the GTA regions surrounding the City of Toronto. York and Peel regions combined will account for approximately two-thirds of total low-rise starts; Halton and Durham regions will account for slightly less than a third; and the remainder will be smaller-scale in-fill development in the City of Toronto.

Existing Home Market

More Balanced Market Conditions in 2008 and 2009

Following a record breaking year in the Greater Toronto Area (GTA) in 2007, existing home sales will edge lower in 2008 and 2009. More moderate job growth coupled with higher home prices and borrowing costs will result in fewer households purchasing a home in the resale market. Fewer home purchases will especially be noted in the first-time buyer segment of the market. However, even with more moderate sales over the next two years, existing home sales will still remain higher than the average for the last 10 years and in line with the average over the past five years.

Fewer First-Time Buyers

Following a resurgence in first-time buying activity in 2007, when an estimated 60 per cent of home buyers were moving from rental accommodation into home ownership, the number of households purchasing their first home will decline through the end of 2009. Strong youth employment growth, low borrowing costs and a greater diversity of mortgage products "pulled forward" some first-time buyer households last year who otherwise would have purchased in

Figure 4

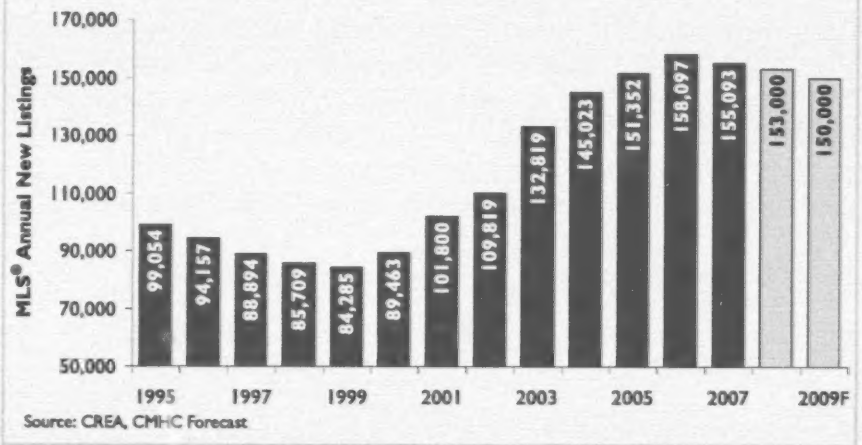


Figure 5

2008 or 2009. The result will be a smaller first-time buyer pool this year and next. In addition, rising required incomes to carry a mortgage on the average priced home, relative to average household income, will prompt some would-be first-time buyers to hold off on their purchase until their incomes and/or savings increase in relation to home ownership costs.

Cost of Home Ownership Increasing

As the cost of home ownership rises over the next two years, fewer households will decide to purchase a home. The required household income to carry a mortgage on an average priced existing home in 2008 and 2009 will be $91,789 and $93,763 respectively. In both years, the required income will be slightly greater than the forecast household income in the region. This will be a departure from the norm observed over the past decade, when the required income was below average household income.

While higher mortgage carrying costs and by extension required incomes will be a drag on home ownership demand, it should be noted that the mortgage market has become more flexible over the past two years. Some households have been able to take advantage of different down-payment structures and amortization periods allowing them to comfortably purchase and pay for ownership housing. Other households, in response to higher carrying costs, have opted for less-expensive housing types. The use of more flexible mortgage products and a movement toward less-expensive housing types will continue through the end of 2009. Thus, while some households will respond to the increasing cost of home ownership by putting their decision to purchase on hold, others will remain confident in their ability to purchase and pay for a home over the long term.

More Choice in Resale Market

The decline in MLS® sales through the end of 2009 will occur at a more rapid rate than the decline in new listings. The result will be a widening gap between sales and listings, which will provide home buyers with more choice in the marketplace. The better-supplied existing home market will be associated with more moderate annual price growth. When buyers have more homes to choose from, they are less likely to

Figure 6

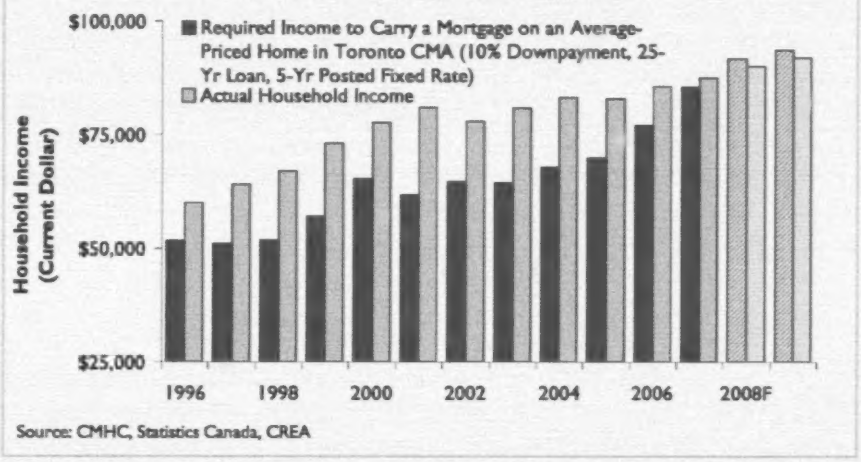
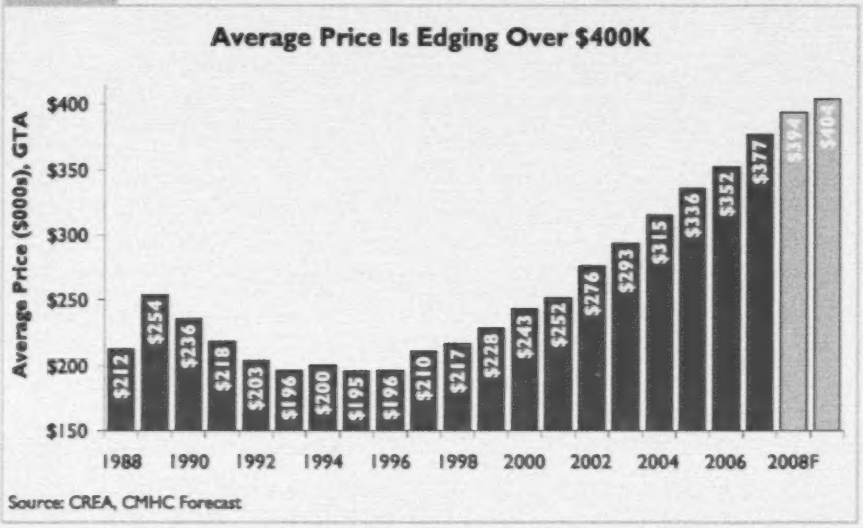


Figure 7



make offers at or above list, or to enter into "bidding wars" with other buyers. The average existing home sale price in 2008, across all housing types from single-detached through condominium apartments, will be $394,000 or a 4.5 per cent increase over 2007. In 2009, price growth will move closer to inflation with an average price of $404,000.

Focus on the Condominium Apartment Market

As condominium apartment completions rebound in 2008, the share held by investors will be of interest. If many investors list their units for sale shortly after completion, there could be downward pressure on price growth in this segment of the existing home market. Based on CMHC's Fall Rental Market Survey, investors owned between 20 and 21 per cent of registered condominium apartment stock. Discussions with industry stakeholders suggest that there could be a greater investor concentration in unregistered projects – perhaps as high as one-third.

As projects complete, some of these investors will choose to sell their apartments in order to take advantage of increases in market value which occurred during the construction period. These increased sales are not forecast to result in declining values for condominium apartments. Currently, the resale market is very tight. Sales accounted for half of active listings at the end of 2007. Moreover, the number of completed and unoccupied units is very low, ranging between 1,000 and 2,000 units. These tighter market conditions resulted in average condominium apartment prices growing at an annual rate of over 10 per cent in 2007. As more supply comes into the marketplace over the next year, however, the rate of price growth will moderate to approximately five percent in 2008 and 2.5 to three per cent in 2009.

It is important that average price growth for existing homes remains reasonable relative to income growth over the long-term, allowing for sustained home ownership demand moving forward. This is especially important for the condominium apartment segment of the ownership market, which continues to cater toward a growing proportion of first-time buyers.

Figure 8

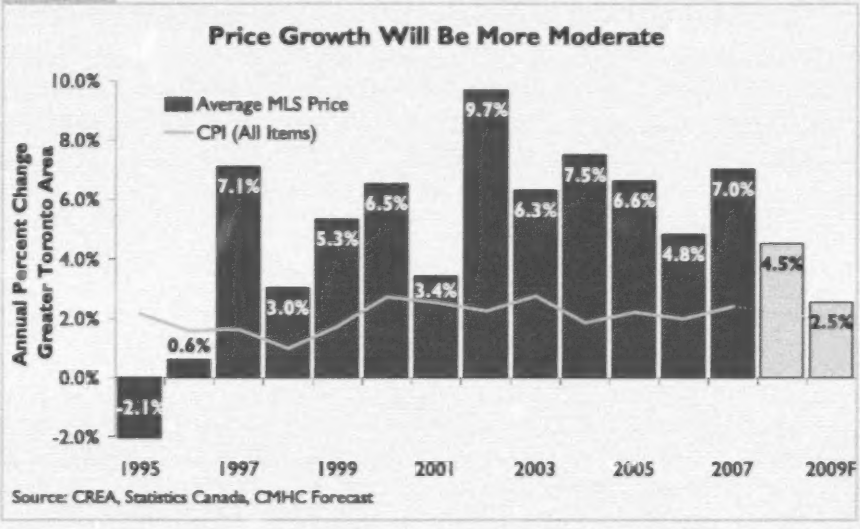
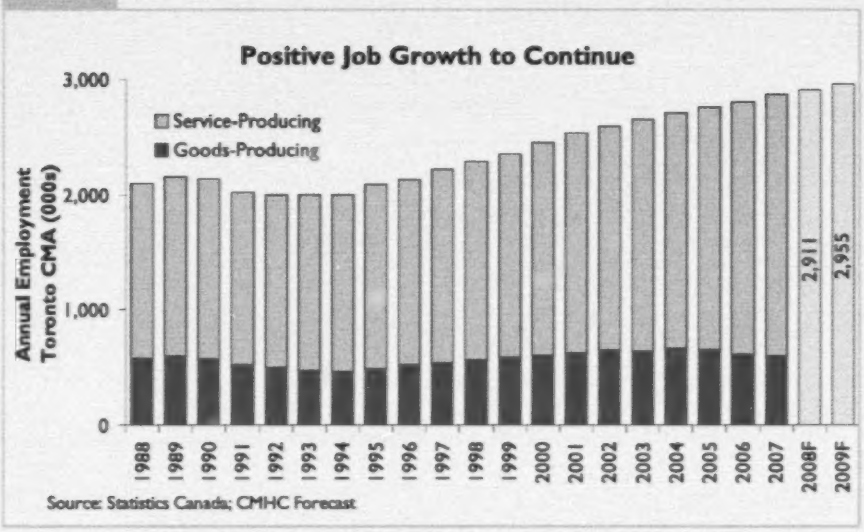


Figure 9



Source: Statistics Canada; CMHC Forecast

Local Economy

Sustained Job Growth

Steady job creation and rising incomes in 2008 and 2009 will keep households confident in their ability to purchase and pay for a home over the long term in the GTA.

Employment will continue to grow in 2008 and 2009, but at a more moderate pace than experienced last year. The average number of jobs is forecast to grow by 1.6 per cent in 2008 and 1.5 per cent in 2009. Employment growth will be supported by domestic demand fueling a well-established services sector. The manufacturing sector will continue to be challenged due to a decline in exports south of the boarder resulting from the high value of the Canadian dollar and a broader slow down in the United States economy. However, job growth in service-oriented industries will more than offset the job losses from the goods-producing sector.

There is often concern associated with the shift from goods producing jobs to service sector jobs. While it is true that in Ontario as a whole service sector jobs are associated with lower average incomes, the situation in the GTA is somewhat different. The local economy in the GTA is the most diverse in Canada. This diversity can be attributed, in part, to the existence of high value-added service sector employment, including finance, insurance and real estate, professional services, government, healthcare and education.

Many of these sectors will continue to create high-paying jobs through the end of 2009. The higher earnings in these industries will continue to promote the purchase of more-expensive home types in sub-markets with above-average prices.

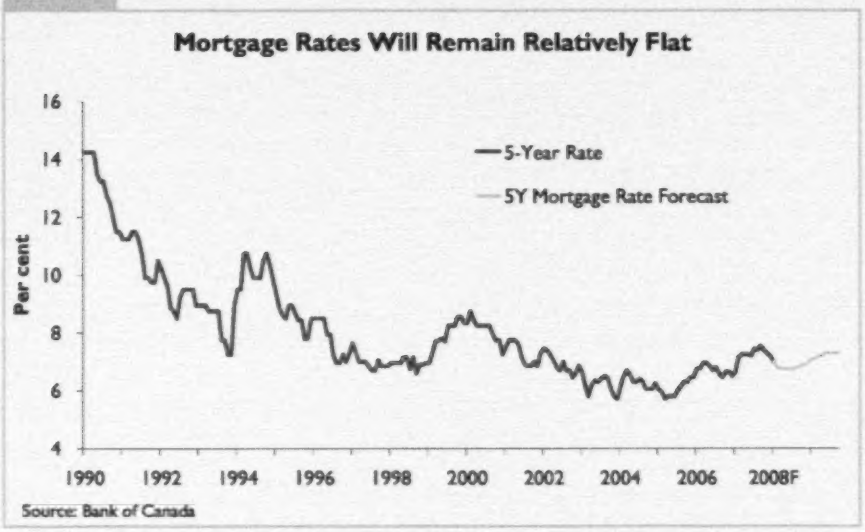
The unemployment rate in Toronto is forecast to rise moderately to 6.9 per cent in 2008 and 7.2 per cent for in 2009 - below the average unemployment rate experienced over the past two decades. Tight labour market conditions will result in average earnings rising in line with the rate of inflation over the next two years.

Population Growing Through Migration

An increasing number of households will migrate into the GTA over the next two years – up to 65,800 and 68,000 in 2008 and 2009 respectively. Of paramount importance will be immigrant households. Between 2001 and 2006 40 per cent of total new-comers to Canada settled in the Toronto area. This trend will continue, as people from other countries are attracted not only by quality job opportunities, but also the established ethnic and cultural networks in many parts of the region. In 2008 and 2009 immigration will offset losses of households to other parts of Ontario and the rest of Canada.

The strong regional economies in western Canada will continue to be a drag on population growth in central Canada, including the GTA. However, this movement westward will be more moderate as the economic gap between Ontario and western Canada narrows gradually over the next two years.

Figure 10



Mortgage Rates Will Remain Relatively Flat

Posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

Forecast SUMMARY
Greater Toronto Area
Spring 2008

	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	85,672	84,842	95,164	84,000	-11.7	77,000	-8.3
MLS® New Listings	151,352	158,097	155,093	153,000	-1.3	150,000	-2.0
MLS® Average Price ($)	336,176	352,388	377,029	394,000	4.5	404,000	2.5
New Home Market							
Starts:							
Single-Detached	18,435	16,290	16,639	15,365	-7.7	12,190	-20.7
Multiples	27,098	24,321	19,591	25,865	32.0	23,245	-10.1
Semi-Detached	3,435	2,996	2,920	2,350	-19.5	1,745	-25.7
Row/Townhouse	7,171	5,872	5,926	5,125	-13.5	4,630	-9.7
Apartments	16,492	15,453	10,745	18,390	71.1	16,870	-8.3
Starts - Total	45,533	40,611	36,230	41,230	13.8	35,435	-14.1
Average Price ($):							
Single-Detached	407,590	453,605	494,004	520,000	5.3	534,000	2.7
New Housing Price Index (1997=100)	4.5	3.8	2.7	2.3		2.0	
Rental Market							
October Vacancy Rate (%)	3.7	3.2	3.2	3.5		3.0	
Two-bedroom Average Rent (October) ($)	1,052	1,067	1,061	1,077		1,093	
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-0.40	6.83	-0.12
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-0.53	6.97	-0.04
Annual Employment Level	2,763,375	2,802,025	2,865,625	2,911,000	1.6	2,955,000	1.5
Employment Growth (%)	2.1	1.4	2.3	1.6		1.5	
Unemployment rate (%)	7.0	6.6	6.8	6.9		7.2	
Net Migration [1]	76,685	53,465	58,800	65,800	11.9	68,000	3.3

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
[1] 2007 migration data is forecasted

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